

KHAI-MA MUNICIPALITY

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2009

1. REVIEW OF OPERATING RESULTS

The overall operating results for the year ended 30 June 2009 as well as the comparison with the budgeted figures and the actual results of 2008 are summarised as follow:

Description	Budget 2009	Actual 2009	Variance	Variance Actual as % of Budget	Actual 2008
INCOME					
Operating Income	59,109,553	33,688,817	(25,420,736)	(43.01)	23,502,100
EXPENDITURE					
Operating Expenditure	(36,153,508)	(26,947,830)	9,205,678	25.46	(26,239,244)
Profit/(Loss) for the year	22,956,045	6,740,987	(16,215,058)	(70.64)	(2,737,144)

Details of operating results per department and classification of income and expenditure is included in the Statement of Performance and Appendix D in the financial statements.

2. OPERATING EXPENDITURE

The expenditure per function for the year ended 30 June 2009 as well as the comparison with the budgeted figures and the actual results of 2008 are summarised as follow:

Description	Budget 2009	Actual 2009	Variance	Variance Actual as % of Budget	Actual 2008
Employee related costs	5,160,450	5,121,338	39,112	0.76	4,419,737
Remuneration of Councillors	1,304,800	1,246,244	58,556	4.49	1,121,996
Debt Impairment		26,388	(26,388)	#DIV/0!	6,107,204
Increase in Provision for Rehabilitation of Landfill Site		189,727	(189,727)	#DIV/0!	311,968
Depreciation and Amortisation		1,680,466	(1,680,466)	#DIV/0!	1,450,503
Impairments		7,938,257	(7,938,257)	#DIV/0!	921,521
Repairs and Maintenance	790,000	606,899	183,101	23.18	523,903
Unamortised discount - Interest		488,549	(488,549)	#DIV/0!	158,319
Actuarial losses		-	-	#DIV/0!	117,574
Finance Charges	747,780	330,089	417,691	55.86	327,778
Bulk Purchases	2,200,000	2,395,380	(195,380)	(8.88)	1,750,819
Contracted services	230,000	184,576	45,424	19.75	206,671
General Expenses	25,720,478	6,739,917	18,980,561	73.80	8,821,251
TOTAL	36,153,508	26,947,830	9,205,678	#DIV/0!	26,239,244

3. OPERATING INCOME

Description	Budget 2009	Actual 2009	Variance	Variance Actual as % of Budget	Actual 2008
Property Rates	1,480,940	1,465,115	(15,825)	(1.07)	1,714,202
Government Grants and Subsidies	27,273,183	9,767,504	(17,505,679)	(64.19)	13,802,153
Contributed PPE	7,071,800	15,865,295	8,793,495	124.35	-
Fines	50,000	63,550	13,550	27.10	69,289
Actuarial Gains	-	126,551	126,551	#DIV/0!	-
Service Charges	5,215,390	4,985,515	(229,875)	(4.41)	6,674,613
Rental of Facilities and Equipment	84,900	93,966	9,066	10.68	87,370
Interest Earned - External					
Investments	150,000	239,669	89,669	59.78	195,524
Interest Earned - Outstanding					
Debtors	518,940	838,837	319,897	61.64	698,727
Licences and Permits	13,900	14,668	768	5.53	14,933
Agency Services	100,000	98,423	(1,577)	(1.58)	77,631
Other Income	1,285,100	129,904	(1,155,196)	(89.89)	167,658
TOTAL	43,244,153	33,688,997	(9,555,156)	#DIV/0!	23,502,100

4. EXTERNAL LOANS

Type	Balance at 30/06/2008	Received	Redeemed	Transferred	Balance at 30/06/2009
Annuity Loans	2,004,029	-	(506,945)	-	1,497,084
Lease Liabilities	58,816	-	(23,973)	-	34,843
TOTAL	2,062,845	-	(530,918)	-	1,531,927

5. PAYABLES, PROVISIONS AND UNSPENT CONDITIONAL GRANTS

	2009 R	2008 R
Payables	5,061,586	2,178,633
Provision - Staff Leave	513,727	13,224
Unspent Conditional Grants	2,750,661	736,816
	8,325,974	2,928,673

6. CONSUMER DEBTORS

	2009 R	2008 R
Property Rates	2,332,566.00	2,401,426.00
Electricity	314,247	140,827
Water	5,075,468	3,446,727
Refuse	674,246	476,788
Sewerage	755,459	508,018
Other	87,663	-
Water Recognition	20,759	45,715
Electricity Recognition	42,192	38,480
Refuse Recognition	2,544	4,275
	9,305,144	7,062,256
<u>Less:</u> Provision for Bad Debts	(6,104,832)	(6,078,444)
	3,200,312	983,812

Increase of consumer debtors due to non-payment off services.

7. CAPITAL EXPENDITURE

The following capital expenditure occurred during the 2008/2009 financial year:

Project	Budget	Expenditure	Variance
Land and Buildings	15,865,295	15,865,295	-
Infrastructure	6,921,800	806,656	6,115,144
Community Assets	270,000	10,826	259,174
Other Assets	139,905	9,824	130,081
TOTAL	23,197,000	16,692,601	6,504,399

SOURCE OF FINANCE

External Loans	
Government Grants and Subsidies	23,197,000
Capital Replacement Reserve	
Public Contributions	
TOTAL	23,197,000

No infrastructure projects could be started due to political instability during the financial year.

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STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2009

	Notes	2009 R	2008 R
NET ASSETS AND LIABILITIES			
Net Assets		39,296,561	28,021,117
Housing Development Fund	2	12,641	12,049
Capital Replacement Reserve	3	-	-
Capitalisation Reserve	3	-	-
Government Grant Reserve	3	-	-
Donations and Public Contribution Reserve	3	-	-
Self Insurance Reserve	3	-	-
Revaluation Reserve	3	4,353,078	-
Accumulated Surplus/(Deficit)		34,930,842	28,009,069
Non-Current Liabilities		5,255,832	4,864,695
Long-term Liabilities	4	354,189	389,524
Finance Leases	5	9,019	34,843
Non-current Provisions	6	4,892,624	4,440,328
Current Liabilities		9,043,919	4,054,083
Consumer Deposits	7	47,767	41,807
Provisions	8	91,260	272,551
Trade and other payables	9	5,537,527	2,191,857
Unspent Conditional Government Grants and Receipts	10	2,750,661	736,816
Unspent Conditional Public Contributions and Receipts	11	-	-
Taxes	12	-	-
Short-term Loans	13	-	-
Operating Lease Liability	23.1	-	-
Cash and Cash Equivalents	24	555,619	768,756
Current Portion of Long-term Liabilities	4	35,262	18,324
Current Portion of Finance Leases	5	25,824	23,973
Total Net Assets and Liabilities		53,596,312	36,939,895
ASSETS			
Non-Current Assets		45,739,086	34,115,302
Property, Plant and Equipment	14	45,739,086	34,115,302
Non-Current Assets Held for Sale	15	-	-
Investment Property	16	-	-
Intangible Assets	17	-	-
Investments	18	-	-
Long-Term Receivables	19	-	-
Current Assets		7,857,226	2,824,593
Inventory	20	1,063,633	1,078,593
Trade Receivables from exchange transactions	21	2,423,867	138,508
Other Receivables from non-exchange transactions	22	967,103	845,304
Unpaid Conditional Government Grants and Receipts	10	-	-
Operating Lease Asset	23.2	-	-
Taxes	12	324,338	-
Current Portion of Long-term Receivables	19	-	-
Cash and Cash Equivalents	24	3,078,285	762,188
Total Assets		53,596,312	36,939,895

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STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 R	2008 R
REVENUE			
Revenue from Non-exchange Transactions		27,287,835	15,585,644
Taxation Revenue		1,465,115	1,714,202
Property taxes	25	1,465,115	1,714,202
Transfer Revenue		25,632,799	13,802,153
Government Grants and Subsidies	26	9,767,504	13,802,153
Public Contributions and Donations	27	-	-
Contributed Property, Plant and Equipment	28	15,865,295	-
Other Revenue		189,921	69,289
Fines		63,550	69,289
Third party payments		-	-
Stock adjustments		-	-
Actuarial Gains	6	126,371	-
Changes in Fair Value	29.1	-	-
Other	30	-	-
Revenue from Exchange Transactions		6,400,982	7,916,456
Property Rates - penalties imposed and collection charges		-	-
Service Charges	31	4,985,515	6,674,613
Rental of Facilities and Equipment		93,966	87,370
Interest Earned - external investments		239,669	195,524
Interest Earned - outstanding debtors		838,837	698,727
Licences and Permits		14,668	14,933
Income for Agency Services		98,423	77,631
Other Income	32	129,904	167,658
Unamortised discount - Interest	33	-	-
Total Revenue		33,688,817	23,502,100
EXPENDITURE			
Employee related costs	34	5,121,338	4,419,737
Remuneration of Councillors	35	1,246,244	1,121,996
Debt Impairment	36	26,388	6,107,204
Collection costs		-	-
Increase in Provision for Rehabilitation of Landfill Site		189,727	311,968
Depreciation and Amortisation		1,680,466	1,450,503
Items of PPE Derecognised	37	7,938,257	921,521
Repairs and Maintenance		606,899	523,903
Unamortised discount - Interest	33	488,549	158,319
Actuarial losses	6	-	117,574
Finance Charges	38	330,089	327,778
Bulk Purchases	39	2,395,380	1,750,819
Contracted services		184,576	206,671
Grants and Subsidies Paid	40	-	-
Other Operating Grant Expenditure		-	-
General Expenses	41	6,739,916	8,821,251
Changes in Fair Value	29.2	-	-
Total Expenditure		26,947,830	26,239,244
Operating Surplus for the Year		6,740,987	(2,737,144)
Loss on disposal of Property, Plant and Equipment		-	-
Gain on disposal of Property, Plant and Equipment		-	-
NET SURPLUS/(DEFICIT) FOR THE YEAR		6,740,987	(2,737,144)
Refer to Appendix E(1) for explanation of variances			

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CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 R	2008 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		30,691,264	26,185,378
Cash paid to suppliers and employees		(10,854,051)	(21,846,445)
Cash generated/(absorbed) by operations	43	19,837,213	4,338,933
Interest Received		239,669	894,251
Interest Paid		(330,089)	(327,778)
Net Cash from Operating Activities		19,746,793	4,905,406
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment		(16,692,601)	(5,907,118)
Proceeds on Disposal of Fixed Assets		-	-
(Increase)/Decrease in Intangible Assets		-	-
(Increase)/Decrease in Long-term Receivables		-	-
(Increase)/Decrease in Non-current Investments		-	-
Net Cash from Investing Activities		(16,692,601)	(5,907,118)
CASH FLOW FROM FINANCING ACTIVITIES			
New loans raised/(repaid)		(530,919)	476,920
Increase/(Decrease) in Consumer Deposits		5,960	2,626
Net Cash from Financing Activities		(524,959)	479,546
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,529,233	(522,166)
Cash and Cash Equivalents at the beginning of the year		(6,567)	515,599
Cash and Cash Equivalents at the end of the year	44	2,522,666	(6,567)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,529,233	(522,166)

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STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2009

	Pre-GAMAP Reserves and Funds	Housing Development Fund	Capital Replacement Reserve	Capitalisation Reserve	Government Grant Reserve	Donations and Public Contribution Reserve	Self Insurance Reserve	Revaluation Reserve	Accumulated Surplus/ (Deficit)	Total
	R	R	R	R	R	R	R	R	R	R
Balance at 1 JULY 2007	-	75,627	-	797,526	11,236,430	221,480	-	-	13,946,691	26,277,754
Net Surplus/(Deficit) for the year	-	-	-	-	-	-	-	-	(2,737,144)	(2,737,144)
Correction of Error - Note 42.5	-	-	-	(797,526)	(11,236,430)	(221,480)	-	-	16,799,521	4,544,085
Donated/contributed PPE	-	-	-	-	-	-	-	-	-	-
Property, Plant and Equipment purchased	-	-	-	-	-	-	-	-	-	-
Capital Grants used to purchase PPE	-	-	-	-	-	-	-	-	-	-
Transfer to Housing Development Fund	-	(63,578)	-	-	-	-	-	-	-	(63,578)
Asset Disposals	-	-	-	-	-	-	-	-	-	-
Offsetting of depreciation	-	-	-	-	-	-	-	-	-	-
Balance at 30 JUNE 2008	-	12,049	-	-	-	-	-	-	28,009,069	28,021,117
Correction of Error	-	-	-	-	-	-	-	-	-	-
Restated balance	-	12,049	-	-	-	-	-	-	28,009,069	28,021,117
Net Surplus/(Deficit) for the year	-	-	-	-	-	-	-	-	6,740,987	6,740,987
Transfer to/from CRR	-	-	-	-	-	-	-	-	-	-
Revaluation of PPE	-	-	-	-	-	-	-	4,534,456	-	4,534,456
Property, Plant and Equipment purchased	-	-	-	-	-	-	-	-	-	-
Capital Grants used to purchase PPE	-	-	-	-	-	-	-	-	-	-
Transfer to Housing Development Fund	-	592	-	-	-	-	-	-	(592)	-
Write-offs	-	-	-	-	-	-	-	-	-	-
Asset Disposals	-	-	-	-	-	-	-	-	-	-
Offsetting of depreciation	-	-	-	-	-	-	-	(181,378)	181,378	-
Balance at 30 JUNE 2009	-	12,641	-	-	-	-	-	4,353,078	34,930,842	39,296,561

**ACCOUNTING PRINCIPLES AND POLICIES NOTES APPLIED IN THE
FINANCIAL STATEMENTS**

1.1. BASIS OF PREPARATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Directive 5 "Determining the GRAP Reporting Framework", issued by the Accounting Standards Board.

The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associate
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economics
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the reporting date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment (PPE)
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 100	Non-Current Assets Held for Sale and Discontinued Operations
GRAP 101	Agricultural
GRAP 102	Intangible assets

Accounting policies for material transactions, events or conditions not covered by the above GRAP have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3.

A summary of the significant accounting policies, which have been consistently applied except where an exemption or transitional provision has been granted, are disclosed below.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP.

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The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant notes to the Financial Statements.

In terms of Directive 4: "Transitional Provisions for Medium and Low Capacity Municipalities" issued by the Accounting Standards Board the municipality has adopted the transitional provisions for the following GRAP Standards:

GRAP 12 – Inventories;
GRAP 13 – Leases;
GRAP 16 – Investment Property;
GRAP 17 – Property, Plant and Equipment;
GRAP 19 – Provisions, Contingent Liabilities and Contingent Assets;
GRAP 100 – Non-current Assets Held for Sale and Discontinued Operations;
GRAP 102 – Intangible Assets.

1.2. PRESENTATION CURRENCY

Amounts reflected in the financial statements are in South African Rand and at actual values. No financial values are given in an abbreviated display format. No foreign exchange transactions are included in the statements.

1.3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

1.4. COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18	Segment Reporting
GRAP 21	Impairment of non-cash-generating assets
GRAP 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 26	Impairment of cash-generating assets
GRAP 103	Heritage Assets

1.6. FOREIGN CURRENCY TRANSACTIONS

The Municipality will not incur a foreign currency liability other than that allowed by the MFMA.

1.7. RESERVES

1.7.1 *Housing Development Fund*

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government, used to finance housing selling schemes undertaken by the Municipality, were extinguished on 1 April 1998 and transferred to the Housing Development Fund. Housing selling schemes, both completed and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sale of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.7.2 *Capital Replacement Reserve (CRR)*

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus / (deficit) to the CRR. The cash in the CRR can only be utilized to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus / (deficit) are credited by a corresponding amount when the amounts in the CRR are utilized.

1.7.3 *Revaluation Reserve*

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation reserve is realized as revaluated buildings are depreciated, through a transfer from the Revaluation Reserve to the accumulated surplus / (deficit). On disposal, the net revaluation surplus is transferred to the accumulated surplus / (deficit) while gains or losses on disposal, based on revaluated amounts, are charged to the Statement of Financial Performance.

1.8. LEASES

1.8.1 *Municipality as Lessee*

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Transfer of ownership is not required to be recognised as a finance lease. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables.

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Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease.

1.8.2 Municipality as Lessor

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

1.9. UNSPENT CONDITIONAL GRANTS

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

1.10. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
 - the principal locations affected;
 - the location, function and approximate number of employees who will be compensated for terminating their services;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented.